



Performance and Accountability Report

Fiscal Year 2004



Homeland
Security



Appendices

Part IV

Appendix A - Improper Payments Risk Matrix Results

Overall Risk Score

No bureau reported a program score above the 3.0 floor used to define susceptible to improper payment risk. This result will need to be substantiated by statistically significant payment sampling for each type of payment with a materially significant total payment amount. This work will take place during the first quarter of fiscal year 2005.

Individual Risk Scores

No scores above 3.0 were reported for any program's individual risk scores in the areas of internal payment processing control risk, monitoring control risk, external payment processing control risk, human capital risk, or complexity of program. Scores above 3.0 were reported in the areas of age of program, program recipients, and materiality of operating budget. Some bureaus shared the same individual risk score across all programs reflecting common financial systems and control processes. Complexity of program received the lowest overall risk scores and materiality of operating budget the highest. No element average above a 3.0 score.

Exclusion of Payroll

Many bureaus did not exclude payroll from their fiscal year 2005 Operating Budget Figure. Three programs dropped below the \$100 million threshold when payroll was excluded. The presence or absence of payroll did not effect whether a program that was assigned risk matrix scores fell above or below a 3.0 overall score. In all cases the overall score would have remained below 3.0.

Improper Payments Risk Matrix Instructions and Background Information Grading

Programs are evaluated on a 1-5 scale with 1 representing lowest risk and 5 equating to highest risk. Grading criteria are listed on the following Grading Worksheet. Bureau should assign whole number grades. Averages should be reported to the nearest tenth. N/A should be used if not applicable criteria. The average calculation should not include any N/A factors.

Include/Exclude Criteria

To be included, programs must have fiscal year 2005 Operating Budgets of at least \$100 million, excluding payroll. Payroll is excluded because it is not susceptible to improper payments (recurring stable payment, rigorous NFC payment edits, recurring budget and accounting audit review). The \$100 million floor assumes that no program will have an improper payment rate over 10 percent. Over 95 percent of all fiscal year 2005 Congressional Operating Budgetary Dollars are included in the assessment. Fiscal year 2005 Congressional Operating Budgetary Dollars are the most current year for which *Future Years Homeland Security Program* financial plan information is available. Bureaus were asked to use fiscal year 2004 program dollar amounts, if they could be compiled timely and if they differed significantly from fiscal year 2005 figures.

Programs

Programs descriptions come from the *Future Years Homeland Security Program* system and were developed by bureau personnel, Department headquarters budget staff and the Department's first Chief Financial Officer, Dr. Bruce Carnes. The Office of Personnel Management has been briefed on and did not object to the program definitions.

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Overall Risk Score

The 80 percent weighting on internal, human capital, and programmatic risk elements encourages program management for all Department programs to decrease improper payment risk factors. Program managers are encouraged to devote appropriate staff time to monitoring results, training staff, and undergoing rigorous audit testing.

Selected for Statistical Sampling

Programs with overall risk scores above 3.0 will need to undergo statistical sampling to produce an auditable estimated erroneous payment amount and rate. If the amount and rate exceed the Office of Management and Budget (OMB) guidance limits, program managers will need to create, and have approved by the Office of Financial Management (OFM), a corrective action plan to meet the OMB standards. Quarterly progress updates will be due to OFM until goals are met.

President's Management Agenda IPIA Initiative

Beginning in fiscal year 2005, the Department will brief OMB on the progress the agency has made in reducing improper payments. Briefings will be quarterly and are part of the *President's Management Agenda*. All program managers, whether undergoing IPIA improper payment sampling or not, are encouraged to minimize improper payment risk factors and notify OFM of any major achievements (or setbacks).

Improper Payments Risk Matrix Grading Criteria for Risk Factors

(Scale 1=Lowest Risk, 5=Highest Risk)

Grading Standards

Factor	1	2	3	4	5
Internal Payment Processing Control Risks	Completely automated payment system. Insignificant third party payments. Documented separation of duties.	All applicable grade 1 standards met except one. No known internal control risk.	Two applicable grade 1 standards not met. No known internal control risk.	Known minor internal control risk. Or More than two grade 1 standards not met.	Known major internal control risk.

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Factor	1	2	3	4	5
Internal Payment Processing Control Risks (Continued)	<p>No major known internal control issues.</p> <p>Rigorous front-end payment system edits.</p> <p>System produces high quality, reliable reports.</p> <p>Minimal number of contracts with more than 5 mods.</p>				
Monitoring Control Risks	<p>Ongoing quality assurance procedures.</p> <p>Timely contract closeout procedures.</p> <p>Monitoring of contractor expenditures.</p> <p>Quarterly reconciliations with Treasury.</p> <p>Financial statement audit testing.</p> <p>If grant monies distributed, then on-site monitoring of grantee programs for compliance with statutory and regulatory requirements.</p> <p>Consistent guidance to field office staff.</p>	<p>All applicable grade 1 standards met except one.</p> <p>No known monitoring control risk.</p>	<p>Two applicable grade 1 standards not met.</p> <p>No known monitoring control risk.</p>	<p>Known minor monitoring control risk. Or</p> <p>More than two grade 1 standards not met.</p>	<p>Known major monitoring control risk.</p>
External Payment Processing Control Risks	Based on 2003 Clearinghouse Single Audit data:	Based on 2003 Clearinghouse Single Audit data:	Based on 2003 Clearinghouse Single Audit data:	Based on 2003 Clearinghouse Single Audit data:	Based on 2003 Clearinghouse Single Audit data:

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Factor	1	2	3	4	5
External Payment Processing Control Risks (Continued)	<p><1% of grantees had reportable conditions or material weaknesses</p> <p><5% of grantees were not considered at low risk or had questionable costs</p> <p><10% of grantees were not considered low risk</p>	<p><5% of grantees had reportable conditions or material weaknesses</p> <p><10% of grantees were not considered at low risk or had questionable costs</p> <p><20% of grantees were not considered low risk</p>	<p><10% of grantees had reportable conditions or material weaknesses</p> <p><20% of grantees were not considered at low risk or had questionable costs</p> <p><30% of grantees were not considered low risk</p>	<p><20% of grantees had reportable conditions or material weaknesses</p> <p><30% of grantees were not considered at low risk or had questionable costs</p> <p><40% of grantees were not considered low risk</p>	<p>Grade 4 Standards Exceeded. Or Known major external payment processing control risk.</p>
Human Capital Risks	<p>Low staff and management turnover.</p> <p>Adequate staff size.</p> <p>Non-contractor erroneous payment reduction expertise.</p> <p>Training given to all staff on reducing erroneous payments.</p> <p>Written procedures present for reducing erroneous payments.</p> <p>Targets developed and shared on reducing erroneous payments.</p> <p>Minimal expedited payments</p>	<p>All applicable grade 1 standards met except one.</p>	<p>Two applicable grade 1 standards not met.</p>	<p>Known minor human capital risk. or</p> <p>More than two grade 1 standards not met.</p>	<p>Known major human control risk.</p>

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Factor	1	2	3	4	5
Age of Program	Program greater than ten years old.	Program less than ten years old.	Program less than five years old.	Program less than two years old.	Program less than one year old.
Complexity of Program	Readily identifiable and comprehensible laws and regulations that impact program payments. Straight forward, recurring calculation of payment amounts. Stable program in terms of minimal major changes or payment policy shifts. High quality, standardized guidance available on program administration.	All applicable grade 1 standards met except one.	Two applicable grade 1 standards not met.	One applicable grade 1 standard met.	No applicable grade 1 standards met.
Program Recipients	>90% of all payment dollars paid directly to final recipients. >75% of all payment dollars paid to governmental entities. <500 payment recipients.	>80% of all payment dollars paid directly to final recipients. >50% of all payment dollars paid to governmental entities. <2000 payment recipients.	>60% of all payment dollars paid directly to final recipients. >25% of all payment dollars paid to governmental entities. <5,000 payment recipients.	>40% of all payment dollars paid directly to final recipients. >10% of all payment dollars paid to governmental entities. <10,000 payment recipients.	<40% of all payment dollars paid directly to final recipients. <10% of all payment dollars paid to governmental entities. >10,000 payment recipients.
Materiality of Operating Budget	FY 2005 Congressional Operating Budget >\$100 million and <\$150 million.	FY 2005 Congressional Operating Budget >\$150 million and <\$350 million.	FY 2005 Congressional Operating Budget >\$350 million and <\$600 million.	FY 2005 Congressional Operating Budget >\$600 million and <\$1 billion.	FY 2005 Congressional Operating Budget >\$1 billion.

Improper Payments Risk Matrix

All Bureaus

Data sorted by Bureau and Operating Budget

Data sorted by Bureau and Operating Budget																						
FY 2005 Operating Budget	Internal Controls Risk (Weight = 40%)		Human Capital Risk (Weight = 20%)	Programmatic Risk (Weighting = 40%)			Weighting = 80% Overall Score of Risk Factors	Weighting = 20% Materiality of Operating Budget	Overall Risk Score	Selected for Statistical Sampling												
	Internal Payment Processing Controls	Monitoring Controls	External Payment Processing Controls	Avg. Human Capital Risk	Age of Program	Complexity of Program					Program Recipient	Avg.										
Code	Program Name	(\$000's)																				
CBP Bureaus	CBPO100	3,525,764	2	2	N/A	2.0	1	1	2	3	2.0	1.8	5	2.4	No							
	CBPO200	1,856,244	2	2	N/A	2.0	1	1	2	3	2.0	1.8	5	2.4	No							
	CBPO301	449,909	2	2	N/A	2.0	1	3	2	3	2.7	2.1	3	2.3	No							
	CBPO101	126,096	2	2	N/A	2.0	1	3	2	3	2.7	2.1	1	1.9	No							
	CBPO103	115,159	2	2	N/A	2.0	1	2	2	3	2.3	1.9	1	1.7	No							
	CIS0004	459,000	1	1	1	1.0	1	1	5	1	1	2.3	1.5	3	1.8	No						
	CIS0005	240,000	1	1	1	1.0	1	1	5	1	1	2.3	1.5	2	1.6	No						
	CIS0006	148,200	1	1	1	1.0	1	1	5	1	1	2.3	1.5	1	1.4	No						
	EPRO03	3,049,575	3	1	4	2.7	2	2	1	2	3	2.0	2.3	5	2.8	No						
	EPRO01	2,312,058	3	1	4	2.7	2	2	1	1	3	1.7	2.1	5	2.7	No						
ICE Bureaus	EPRO04	1,829,914	3	1	4	2.7	2	2	1	1	3	1.7	2.1	5	2.7	No						
	EPRO02	121,212	3	1	4	2.7	2	2	1	1	3	1.7	2.1	1	1.9	No						
	AIPO004	231,832	1	1	1	1.0	1	1	5	1	1	2.3	1.5	2	1.6	No						
	AIPO006	101,000	1	1	1	1.0	1	1	5	1	1	2.3	1.5	1	1.4	No						
	CE0001.3	391,351	1	1	1	1.0	1	1	5	1	1	2.3	1.5	3	1.8	No						
	CE0007	371,305	1	1	1	1.0	1	1	5	1	1	2.3	1.5	3	1.8	No						
	CE0006	289,652	1	1	1	1.0	1	1	5	1	1	2.3	1.5	2	1.6	No						
	CE0003.3	255,990	1	1	1	1.0	1	1	5	1	1	2.3	1.5	2	1.6	No						
	CE0001.6	242,935	1	1	1	1.0	1	1	5	1	1	2.3	1.5	2	1.6	No						
	CE0003.1	231,217	1	1	1	1.0	1	1	5	1	1	2.3	1.5	2	1.6	No						
AMO Bureaus	CE0002	226,996	1	1	1	1.0	1	1	5	1	1	2.3	1.5	2	1.6	No						
	CE0003.2	191,992	1	1	1	1.0	1	1	5	1	1	2.3	1.5	2	1.6	No						
	CE0001.5	149,589	1	1	1	1.0	1	1	5	1	1	2.3	1.5	1	1.4	No						
	DDPO002	1,451,876	1	1	1	1.0	2	4	1	2	2.3	1.7	5	2.4	No							
	DDPO001	1,430,875	1	1	1	1.0	2	2	1	2	1.7	1.5	5	2.2	No							
	ST0001	244,200	1	1	1	1.0	1	5	1	1	2.3	1.5	2	1.6	No							
	TSA00002	1,179,870	2	2	N/A	2.0	1	3	1	1	1.7	1.7	5	2.3	No							
	TSA00003	857,779	2	2	N/A	2.0	1	3	1	1	1.7	1.7	4	2.1	No							
	TSA00005	232,374	2	2	N/A	2.0	1	3	1	1	1.7	1.7	2	1.7	No							
	TSA00001	129,654	2	2	N/A	2.0	1	3	1	1	1.7	1.7	1	1.5	No							
USCG Bureaus	TSA00006	121,045	2	2	N/A	2.0	1	3	1	1	1.7	1.7	1	1.5	No							
	USCG0010	1,405,621	2	2	1	1.7	1	1	1	2	1.3	1.4	5	2.1	No							
	USCG0001	700,917	2	2	1	1.7	1	1	1	2	1.3	1.4	4	1.9	No							
	USCG0003	672,464	2	2	1	1.7	1	1	1	2	1.3	1.4	4	1.9	No							
	USCG0007	647,107	2	2	1	1.7	1	1	1	2	1.3	1.4	4	1.9	No							
	USCG0006	510,656	2	2	1	1.7	1	1	1	2	1.3	1.4	3	1.7	No							
	USCG0002	336,867	2	2	1	1.7	1	1	1	2	1.3	1.4	2	1.5	No							
	USCG0005	251,132	2	2	1	1.7	1	1	1	2	1.3	1.4	2	1.5	No							
	USCG0008	172,062	2	2	1	1.7	1	1	1	2	1.3	1.4	2	1.5	No							
	USCG0004	136,095	2	2	1	1.7	1	1	1	2	1.3	1.4	1	1.3	No							
USSS Bureaus	JSSS001	402,430	2	1	1	1.3	2	1	1	1	1.0	1.3	1	1.3	No							
	JSSS004	100,523	2	1	1	1.3	2	1	1	1	1.0	1.3	1	1.3	No							
Average Scores											1.7	1.5	1.4	1.6	1.2	2.9	1.1	1.7	1.9	1.6	2.7	1.8
Amount and Percentage of Operating Dollars Included											27,900,536 100%											